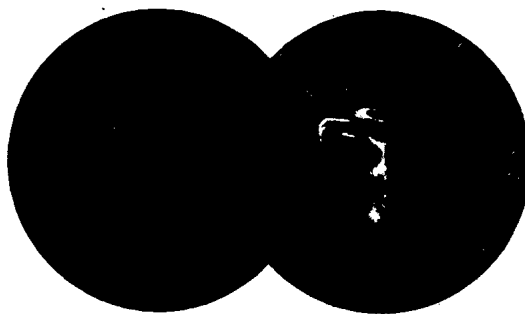


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

After ten sessions of the Council of Foreign Ministers in Paris, Soviet representative Vishinsky has not departed from his original position that Germany should be returned to four-power control. Soviet bargaining tactics being what they are, this initial inflexibility reveals nothing about the eventual course of Soviet negotiations (see page 2). However, the line taken thus far by Vishinsky has not only done nothing to explain Soviet motives in seeking another meeting of the CFM but has also been surprisingly lacking in appeal to both east and west Germans.

The success of the Chinese Communist armies in obtaining control of the Yangtze valley has been mitigated by their failure to destroy the Nationalist forces which were defending the area (see page 12). Not only have substantial Nationalist forces been successfully withdrawn to the south but the Nationalists have been effective in destroying port and transportation facilities as they departed from the Yangtze region.

The precarious situation of the Bolivian Government now appears somewhat relieved by the prospect that the tin mine strikes will shortly be settled after six days of riotous striking and bloodshed (see page 16). Serious political and economic difficulties still confront the Government, however, and these have been augmented by labor unrest generated by the strikes and by damage done to the Bolivian economy through the loss of a month's production of tin.

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SECRET**THE CFM MEETING**

At the end of the second week's sessions of the Council of Foreign Ministers, the USSR had still not laid its cards on the table. Although this failure to reveal its hand thus far is not entirely surprising, the line taken by the USSR has, if anything, increased the mystery surrounding the Soviet motive in agreeing to the resumption of four-power talks on the German question. Soviet insistence on the return to four-power control of Germany with the inevitable entanglement of the veto can hardly have been calculated to appeal to either east or west Germans. Furthermore, by flatly rejecting the western proposals for political and economic unification of Germany, the USSR has given the Germans little hope that agreement on unification can be reached at this time.

Although the Kremlin may have consented to four-power talks merely to sound out the western position, there is some reason to believe that the sterility of the Soviet position at the CFM may have been caused by developments subsequent to the Jessup-Malik agreement. For example, the lifting of the Berlin blockade may not have fulfilled Soviet expectations for an immediate resumption of trade between east and west Germany as an initial step toward relaxation in western export controls on trade with the Soviet bloc. Moreover, the recent eastern zone elections not only emphasized the weakness of the political appeal of the USSR to the German people but may have lessened the Kremlin's confidence in its present ability to influence the course of German political evolution. Vishinsky may therefore be stalling for time while the Kremlin reassesses the extent of the concessions it is willing to make in order to achieve its economic goals.

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Soviet emphasis at the CFM on economic matters suggests that the USSR is still interested in reaching some form of economic agreement which would permit both a freer flow of goods between east and west Germany and a stronger Soviet voice in west German economic affairs. It is still not clear, however, how the USSR expects to achieve these goals as long as it uncompromisingly refuses to make any concessions to the West.

Meanwhile, recent Soviet actions in the German eastern zone provide no indications that the USSR is preparing to relinquish its political controls in eastern Germany. Preparations for the east German state have gone forward on schedule, the most recent advance being the approval of the east German constitution by the People's Congress. Although representation in the future government will be granted to members of the "bourgeois parties" who have committed themselves to the USSR, virtually all the important executive positions will go to members of the Socialist Unity Party (SED) and Communist-front groups. Despite a greater emphasis recently in Soviet propaganda advocating a German national front and urging the cooperation of all "patriotic Germans" in the cause of German unity, nothing has been said to indicate that the dominant position of the SED will be in any way lessened.

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SECRET**WESTERN EUROPE****GERMANY**

Rail Strike A settlement of the Berlin western sector rail strike is unlikely so long as economic considerations remain subordinate to political issues. With a virtual stoppage of all rail traffic between western Germany and Berlin, the strikers continue to demand that the Soviet-controlled Railway Directorate grant: (1) full pay in west marks; (2) reinstatement of all striking workers and others discharged for political reasons; and (3) recognition of their union, which is affiliated with the independent west Berlin trade union federation (UGO). Although the Railway Directorate could apparently grant the first two demands with relatively little difficulty, for political reasons it has resolutely opposed extending recognition to the anti-Communist UGO rail union. The Kremlin may even consider the strike as a means by which the USSR can avoid direct responsibility for maintaining a semi-blockade of Berlin (see page 2). The union, with the tacit support of the western occupation authorities, the west Berlin Magistrat, and the population, has similarly refused to consider anything less than its maximum demands, and the strike has thus become primarily an anti-Communist protest. Although adequate subsistence supplies are reaching Berlin by airlift and truck transport, the strike is costing all parties concerned. The Soviet-controlled Railway Directorate is losing one million east marks (\$75 thousand) in fares and other charges each day; the cost to the western sectors in unemployment compensation for the strikers is \$15,960 per day, to which must be added the cost of food spoilage on delayed trains and the unemployment caused by the shortage of raw materials for industries in western Berlin.

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SECRET**GERMANY**

Coal Production The shortage of investment funds in the bizonal economy not only threatens to reduce the present rate of coal production (330,000 tons daily), but makes it extremely unlikely that western Germany will be able to produce the 450,000 tons daily necessary to support an expanded west German economy. With the coal industry already mortgaged to the hilt in short-term commitments now due or past due and handicapped by greatly increased labor costs, production is being curtailed by the inability to purchase new equipment or to replace worn and obsolete machinery. Although the German Reconstruction Loan Corporation will probably make available funds which will enable the industry to meet its short-term commitments, there is little prospect that the west German economy can supply the 3.5 billion deutschmarks estimated to be required during the next three years if the coal industry is to raise its daily production rate to 450,000 tons.

FRANCE

Economic Debates The Queuille Government has a fair chance of surviving the controversy in Parliament over numerous complex economic issues--at least until the end of the CFM meeting. Although the government-sponsored gasoline tax--a key revenue measure in Finance Minister Petsche's reform plan--was defeated by the Assembly's upper chamber, the government's majority in the lower house appears sufficient to carry the bill on a second reading. The government, however, must still weather such issues as the military budget, reorganization of nationalized industries, and reform of the costly social security system. Debate on these matters will aggravate the rift

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SECRET**FRANCE**

between the non-Communist Left and the Right in both the Cabinet and the Parliament. Encouraged by the recent cantonal elections, the right-wing bloc, presently led by Paul Reynaud, is growing increasingly restive and more critical of the government's economic policies, and may possibly precipitate a government crisis over any one of these issues. Such a development will depend upon the extent of the concessions the Socialists will be willing to make in order to avoid the downfall of the Queuille regime and the ability of the government to demonstrate effectively that it has been responsible for the general economic improvement of the last four months. Although Premier Queuille has a fair chance of surviving the present debate, he will probably face a far more serious threat within a few months if, as is likely, another budgetary deficit develops.

SPAIN

Foreign Policy Following the failure of the UN to lift Spain's diplomatic isolation, Franco is renewing his efforts to obtain closer ties with the US and Latin America, in an attempt to by-pass the strong opposition in Western Europe to ending Spain's diplomatic isolation. As part of this campaign, the Spanish Government has publicly declared that Spain: (1) desires to join the Organization of American States; (2) could cooperate with the US to "resuscitate" Latin America; and (3) should be a member of a South Atlantic Pact.

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SECRET**E A S T E R N E U R O P E****SOVIET UNION**

Rubber Purchases Current Soviet purchases of natural rubber in Malaya and Indonesia at an annual rate substantially exceeding production requirements indicate that the rubber stockpiling program inaugurated in 1948 is still being continued. Shipments of natural rubber reported as cleared or scheduled to be cleared from producing areas to the USSR in the January-April period total 53,963 long tons, an annual rate of 161,889 tons compared with 129,400 tons for 1948. According to official Malayan export statistics, 32,856 tons were shipped during the January-April period. However, additional shipments included: 13,404 tons reported as cargoes of vessels cleared or scheduled to clear from Malaya; 103 tons re-exported from the United Kingdom; and an estimated 7,600 tons scheduled to leave Rotterdam for Riga in March. The shipment from Rotterdam probably originated in Indonesia and represents partial fulfillment of the Netherlands-USSR trade agreement.

Although the rubber purchases by the USSR are partly for stockpiling purposes, there are some indications that difficulties in producing satisfactory heavy truck tires from synthetic rubber is necessitating a more extensive use of the natural product. The USSR will probably continue its present rubber purchasing program until: (1) the Soviet stockpile becomes adequate; and (2) the quantity and quality of Soviet synthetic rubber permit reduced purchases of the natural product. Any substantial reduction in Soviet purchases of Malayan rubber would aggravate the unstable conditions already existing in that area.

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SECRET**YUGOSLAVIA**

Export Policy Although Yugoslavia now has larger quantities of nonferrous metals and other essential commodities available for export to western nations, the completion of Yugoslavia's ambitious industrialization program will still be possible only through the extension of considerable credits by the western powers. For example, the success of the current UK-Yugoslav trade and payments negotiations depends upon the willingness of the UK to extend substantial sterling credits to Yugoslavia for use in importing capital goods. In addition, Yugoslavia has been attempting to obtain loans from the International Bank, the US, and other western nations for importing machinery and heavy industrial equipment. The ability of Yugoslavia to finance purchases of industrial goods from western nations is limited primarily by the amount of agricultural products, timber, and nonferrous metals that can be sold to the West. As a result of decreased trade with the USSR and the Satellites, Yugoslavia is now apparently able to deliver larger quantities of these products to the West, but there is little evidence that Yugoslavia has actually increased its shipments of these products to western buyers. For the moment, the Yugoslavs appear to be using their strategic materials to bargain for the best possible terms.

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SECRET**NEAR EAST - AFRICA****PALESTINE**

Israeli Intentions Israel's uncompromising aggressive-ness at the Lausanne conference, in the armistice talks with Syria, and in the discussions with Jordan at Jerusalem appears to indicate that the Israelis are prepared to see the breakdown of all three sets of negotiations. At Lausanne, where the Arabs were finally persuaded to abandon any special priority for the refugee issue, the Israelis have pushed the discussions to the brink of failure by calling for additional territorial concessions. The Syrian-Israeli armistice talks remain deadlocked over the Israeli demand for Syrian withdrawal from Mishmar Hay Yarden. The negotiations with Jordan at Jerusalem are hung up because of Israeli's insistence on control of the Mount Scopus area; in rejecting a Jordanian counter-proposal that the Arab areas of the New City be yielded to Jordan, Israel hinted that it might feel compelled to take the Mount Scopus area by force. These adamant tactics suggest that Israel might actually look forward to having the troublesome Palestine issue tossed back into the lap of the Security Council. With both sides likely to share the blame for breakdown of the current negotiations and the Security Council again saddled with the problem of making a decision and implementing it, Israel might consider that such a development would offer a further opportunity for obtaining additional territory.

Immigration Problem Israel's inability to absorb new immigrants at the current rate of more than 15,000 a month is becoming daily more apparent. At present more than 60,000 recent arrivals for whom housing and employment cannot be found are crowded in reception

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SECRET**PALESTINE**

centers tragically similar to the DP camps from which they came. The government's frantic building schemes cannot keep up with immigration, and government plans for mass settlement in frontier areas have not recognized that most of the refugees are middle-aged, sedentary, accustomed to city life, and not the stuff of which pioneers are made. As a result of the government's failure to solve the critical trilogy of housing, unemployment, and inflation, there have recently been several large labor-veteran-refugee demonstrations. One of these, the May Day parade, bore the marks of Communist behind-the-scenes work even though it was not actually Communist in character. The Israeli Government is aware both of the inability of its economy to sustain continued immigration at the present rate and of the favorable opportunities for Communist exploitation which exist among refugees who find the Promised Land just another DP camp and among soldiers who either remain in an idle army or are demobilized without homes or employment. However, it is politically impossible for any Israeli leader to suggest even a temporary curtailment of immigration; the Israeli Government apparently can only do what it can with broad housing and settlement schemes and with an austerity program against inflation, meanwhile hoping that external circumstances (such as continued opposition by the USSR and certain Satellites to emigration) will decrease the flow of immigrants to Israel.

IRAN

Soviet Consulates Although two months have passed since the Soviet Union informed the Iranian Government that it was closing its consular posts in Iran and requested Iran to take similar action in the USSR, most Soviet consulates are still open.

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SECRET**IRAN**

Last week the USSR proposed in the name of reciprocity that it retain five consulates in Iran in exchange for the lone Iranian consulate at Baku. This proposal was rejected by Iran, which has long urged reciprocity in a more literal sense. Although the Soviet Union would undoubtedly like to retain some of its consulates, which have served as headquarters for subversive activities, the firm position which Iran has taken and Soviet refusal to accept true reciprocity suggest that the USSR will soon be forced to carry out its original threat to close all its consulates in Iran.

CYPRUS

Communist Losses Slight Communist losses in the recent municipal elections in Cyprus have not materially diminished the Communist potential to create trouble in the future. Although the Communists obtained only 40 percent of the total vote, losing four of the eight towns they won in the 1946 elections, they retained their position in three of the six major industrial and port towns and in the important secondary town of Morphou. The surprising gain shown by Nationalist Greek Cypriots was achieved mainly by last-ditch efforts by the local Greek consul, the more responsible Greek Cypriot press, and various groups in Greece. Moreover, many independents who formerly voted with the Communists were apparently alienated by recent Communist tactics of strike and violence, the shifting Communist line on union with Greece and self-government questions, and closer identification of the local Party with international Communism. Despite the strengthening of the anti-Communist forces, however, it is doubtful whether they will prove as effective a positive political force (except in support of union with Greece) as they were during the heat of the elections.

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F A R E A S T

CHINA

Military Progress Although the Chinese Communists succeeded in obtaining control of the rich and vital Yangtze valley 36 days after their first crossing of the Yangtze River, they failed to neutralize the Nationalist forces defending the valley. In Shanghai, the Communists captured the city but failed to prevent the larger part of the Nationalist garrison from escaping in the Nationalist fleet toward Taiwan and Fukien. Nationalist Commander Pai Chung-hsi succeeded in withdrawing almost his entire force south from the Hankow sector toward his home province of Kwangsi, which he will probably defend against any Communist attackers.

Nationalist Destruction Nationalist forces retreating from the Yangtze valley during the past fortnight inflicted the heaviest damage war-torn China has suffered since the Soviet sack of Manchuria in 1945. In a selective scorching operation, the Nationalist troops concentrated upon destroying transportation and storage facilities. The destruction inflicted upon the Nanking railway station and adjoining piers and ships in the latter part of April was the first indication that the Nationalists were not going to abandon the Yangtze area in the same quiet manner they had evacuated north China and Manchuria. Later, the port of Hankow was crippled by the elimination of most of its facilities. In Shanghai, which received the worst treatment, the Nationalists concentrated on preventing the Communists from obtaining intact the extensive shipping and port facilities and military supplies. Destruction

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of the Kiangnan dockyard wrecked facilities capable of building some 100,000 tons of shipping and repairing hundreds of small vessels per year. Many ships in the Whangpoo River were burned, scuttled or cast adrift by the Nationalist defenders.

Chiang's Return The reluctance of responsible and capable Nationalist leaders to accept nomination to replace Ho Ying-chin as head of the Nationalist cabinet marks the virtual exhaustion of Acting President Li's political resources and may bring the return of Chiang Kai-shek one step nearer. Chiang remains somewhere in the Taiwan-Foochow-Amoy district, however, apparently awaiting the further loss of prestige which Li's regime will suffer when it flees Canton. At that time, Chiang may heed the pleas of his oldest associates and resume the presidency of whatever remains of Nationalist China.

Currency Disintegration The increased use of local currencies in Nationalist China, which reflects the disintegration of centralized authority, will place an additional handicap upon efforts to exchange goods between the various provinces remaining outside Communist control. In the southwest, delegates from Szechwan, Sikang, Kweichow and Yunnan are considering plans for economic and political autonomy, which would include exclusion of the gold yuan, establishment of a joint treasury and the issuance of silver certificate currency. In Sinkiang, silver has been replacing depreciated currencies but there is not enough of that precious metal to provide the province with an adequate circulating medium of exchange. As a result of this, banks

SECRET**CHINA**

have issued silver certificates purportedly redeemable at face value in silver. Meanwhile, as a temporary measure, individual municipalities are considering the issuance of local currencies to maintain essential economic activity within their limited areas. In Chungking, the mayor is backing a plan for the municipal bank to issue silver notes against deposits of silver. In Foochow, the Chamber of Commerce is reported to have issued a local currency with silver backing. In view of the widespread lack of confidence in these local paper issues, however, they will probably provide only a temporary expedient for the areas issuing them.

INDOCHINA

Bao Dai Agreement A potentially critical division may develop between the French and Bao Dai over interpretation of the timing and implementation of the French-Bao Dai agreement. Although the Vietnamese look forward to early French ratification of the Auriol-Bao Dai agreements, the French Overseas Ministry has indicated that the agreements will not be submitted to the Assembly for approval but will be used only as a basis for negotiating a formal treaty. French officials envisage a timetable which calls for the creation of a provisional government by Bao Dai to operate until free elections in Indochina have provided the basis for establishing a new Vietnamese government. The French then expect to give consideration to a formal treaty which would incorporate the June 1948 Baie d'Along pact, the March 1949 agreements, and supplementary conventions. Meanwhile, Bao Dai's plans are reportedly based on the

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INDOCHINA

assumption that the March agreements will be ratified soon after the French Assembly approves a bill permitting unification of Cochin China with Tonkin and Annam. Although Bao Dai has agreed to announce the formation of a provisional cabinet immediately following French approval of the Cochin China bill, he might indefinitely defer this action if he decides to remain "officially inactive" as the Vietnamese Governor of Tonkin has reported he is determined to do.

JAPAN

Peace Treaty The Soviet proposal at the opening session of the CFM meeting that a date be set for discussion of the Japanese peace treaty is probably the first of a series of similar requests. Aside from the propaganda advantages of such a stand to the Japanese Communists, the USSR probably hopes to use the Japanese peace talks as a lever to force the western powers to grant recognition to a Chinese Communist regime. The USSR would insist that such a regime take part in the treaty discussions and the western powers would find it difficult to deny the Soviet request. Moreover, in view of the Communist successes in China, the USSR is more than ever anxious to effect the withdrawal of US troops from Japan in the hope that then Japan would be drawn into the Soviet orbit as a result of its natural economic dependence on China and Manchuria.

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W E S T E R N H E M I S P H E R E

BOLIVIA

Tin Strike After six days of riotous striking by tin miners and other workers, the Bolivian Government is reported to have regained control of the situation, and an agreement with the strikers is said to be imminent. The violence which began at the Catavi mines on 28 May resulted from the miners' reaction to a government attempt to reach a showdown with the National Revolutionary Movement (MNR) by deporting some 20 of its leaders. The strikes spread to all the major tin mines and the government's position became even more precarious when the Communist-led PIR railway workers struck in support of the MNR strike effort. Although the government no longer appears to be in imminent danger of being overthrown, it still faces serious political and economic difficulties. The strike has unquestionably aggravated labor unrest. Moreover, even if the strike is settled soon, it is estimated that at least one month's tin production will be lost, with consequent severe damage to the Bolivian economy and to US-Bolivian trade (Bolivia provides 25% of US tin imports).

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SECRET**PROSPECTS FOR LIBYAN INDEPENDENCE**

The British decision to institute local self-government in Cyrenaica is probably a preliminary step toward UK support of Cyrenaican independence at the next UN General Assembly. Although the British have long considered independence as an alternative to sole UK trusteeship, they were influenced to take this action now by the convocation of a Cyrenaican Congress of Notables to demand independence and by threats by the Emir al Senussi that he would retire if this demand were not met. Other factors influencing the British decision were: (1) doubt that the UN would approve sole British trusteeship; (2) the conviction that multilateral trusteeship or any other trusteeship proposal would not be suitable; (3) concern about growing unrest among the Senussi over the repeated postponement of any solution; and (4) belief that independence, coupled with a treaty arrangement similar to that between the UK and Jordan, would preserve British strategic interests in Cyrenaica.

While the British will be accused of unilaterally prejudicing a UN solution for this key colony, the GA will find it difficult to disapprove the magic formula of "independence." The Soviet bloc has already openly voted for it; the Arab and Asiatic blocs strongly support it; and the Latin American states, with their anti-colonial attitude, will find it hard to oppose.

The UK's precipitate action will affect the disposition of the remainder of Libya and will sharply reduce Italy's chances of regaining control over any part of the colony. The Emir al Senussi has announced that he will work for a united Libya, while the Tripolitaniens, in renewing their demands for independence, have again indicated that they would accept the Emir as king. Previous negotiations on this subject broke down when Tripolitanian leaders, while accepting the Emir, refused to recognize his house as the hereditary dynasty. If Tripolitanian leaders can reach full agreement with the Emir and the UK agrees to back a united, independent Libya, such a solution becomes a distinct possibility.

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SECRET**COMMUNIST PROBLEMS IN CZECHOSLOVAKIA**

The recent Czechoslovak Communist Party Congress in Prague, coinciding with the opening of the CFM meeting in Paris, in addition to being an important milestone in the development of Czechoslovak national policy, was apparently of major significance to the international Communist movement. The importance attached to the meeting by the Kremlin was indicated by the presence of Malenkov, key Kremlin director of Communist parties abroad; the unusually large number of foreign parties represented; the disproportionately large delegations from east and west Germany; and the stringent security measures which have been observed. It is likely, therefore, that the meeting was used as a means of transmitting instructions to Communists throughout the world as well as to the Czechoslovak Communist Party.

Evidence continues to accumulate indicating that the Czechoslovak Communists are causing the Kremlin more concern than is customary from a subservient satellite area. There are numerous reports of: (1) dissension among top Czechoslovak Communist Party officials; (2) serious economic difficulties; (3) mounting dissatisfaction and anti-Communist activity among the populace and the Army; and (4) strong opposition from the Roman Catholic Church, the most cohesive anti-Communist group in Czechoslovakia. In terms of the Kremlin objective of converting Czechoslovakia as speedily as possible into a socialist state under Communist domination, the Communists must regard any one of the above four factors as an important disruptive force.

The reported dissension within the ranks of the Czechoslovak Communist Party probably stems more from disagreement over methods of implementing Soviet policy than from any basic

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divergence from the Moscow line. The presence in Prague before the Congress of Zorin, Soviet Deputy Minister of Foreign Affairs, was probably for the purpose of settling these differences.

Moreover, an imminent economic crisis in the highly-industrialized Czech economy is adding to the Communists' problems. Lack of raw materials threatens to reduce industrial production and the Czechoslovaks are having greater difficulty in exporting goods to the West, thus aggravating the country's deteriorating foreign exchange position. The government has been unable to overcome these deficiencies through bilateral trade agreements, and it is now apparent that Moscow has not extended all-out foreign exchange aid to Czechoslovakia but has granted only limited credits to maintain those industries which contribute most directly to the Soviet economy and war potential.

The growing dissatisfaction among the Czech populace and the Army, as evidenced in recently-uncovered plots against the government and repeated reports of subversive activity, has increased Communist awareness of the need for force to maintain the present regime. Steps have been taken recently to reinforce security measures throughout the country, and the government's security apparatus is considered adequate for any immediate threat which may arise. The Communist regime must view with some apprehension these signs of increasing dissatisfaction, the possibility of further disorders if the labor element is seriously disaffected through the slowdown of industrial production, and even such overt evidence of independence as the current strong stand of the Catholic Church which officially threatened excommunication to those who collaborated with the government's anti-Church policy.

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